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STATE FOR WHA/BSC, INL/LP (JIM HIDES)
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STATE PASS TO USAID FOR LAC/AA
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SUBJECT: TAX AUTHORITY VICE MINISTER NEUFELD REPLACED

11. (C) SUMMARY: Vice Minister of Taxation Andreas Neufeld Toews, who heads Paraguay's Tax Administration, resigned June 28 and will be replaced by Maria Gloria Paez, a close advisor to Neufeld who is expected to maintain the Administration's policies and maintain progress on the MCC Threshold Program components that involve the Tax Administration. Neufeld was indicted by a prosecutor investigating the common practice of claiming salary bonuses for academic decrees not earned. Neufeld appears to have acted in good faith and says he never claimed to have a degree, only that he had completed all coursework and a thesis, lacking only a public defense of his thesis to have the engineering degree conferred. END SUMMARY.

WANTED: A DEGREE

12. (U) Vice Minister Andreas Neufeld, head of Paraguay's Tax Administration, resigned June 28 after being indicted for wrongfully collecting a salary bonus based on having a university degree. In nearly four years as the Vice Minister, Neufeld collected a total of approximately US\$ 4,400, or about \$100 per month. Prosecutor Martin Cabrerias charged Neufeld June 27 with fraud and misuse of funds. Cabrerias' investigation into Neufeld's credentials was part of a broader crackdown that has found many professionals with false certifications, including some doctors. With Neufeld's successful efforts to increase tax revenue and reduce rampant tax evasion, the press seized upon the news.

13. (U) Neufeld claims that he completed his engineering degree at the University del Valle de Cochabamba, in Bolivia, including his full thesis. He admits that he didn't receive the actual degree since he only defended his thesis privately and not publicly as required by the University to have the degree conferred. Neufeld claims that the regulations governing the salary bonus refer only to the number of semesters of coursework completed, although Cabrerias alleges that for engineering degrees, the law requires an actual degree.

14. (C) The former Director of Intellectual Property, Astrid Weiler, who recently transferred to the Tax Administration to

work with Neufeld, told econoff that Neufeld applied for the salary boost through the Ministry of Finance's Department of Administration as per normal procedure. He submitted proof of his course work but never claimed to have the degree, according to Weiler, who believes that Neufeld acted in good faith in accepting the bonus after it was approved by the Department of Administration. In his post-resignation press conference, Neufeld referred emotionally to having had to explain to his nine year old daughter that, no, Papa didn't have a fake diploma.

THE REPLACEMENT

15. (C) The interim Vice Minister replacing Neufeld is Maria Gloria Paez, who was the Tax Administration's Director of Support under Neufeld. Paez is considered to be a close and trusted colleague of Neufeld (possibly replacing Neufeld at his request) and expressed publicly her intention to maintain the same policies as Neufeld. Paez knows the organization well and is regarded as having strong technical skills. She is not considered to be politically well-connected to President Duarte so it is unclear whether or not her interim appointment will become permanent. USAID has worked closely with both Neufeld and Paez through work on the MCC Threshold Program and considers Paez to be a capable replacement. Post doesn't expect the change to negatively impact progress under the Threshold Program.

COMMENT

16. (C) Neufeld was a strong supporter of the MCA Threshold Program and played a principal part in drafting Components Six and Eight of Paraguay's MCA proposal. He has been one of the single most effective public servants with the most concrete results to show for those efforts under the Duarte Administration. He has been under more or less constant attack in the press by those hurt by his successful efforts to increase tax compliance from woefully low levels. It appears that Neufeld's current problems result from a broader

investigation that was not specifically targeted against him, but it does underscore the pressures reformers face here and the need to avoid even the smallest error. It appears that Neufeld acted in good faith in this case. Neufeld, who is a Mennonite, recently took and passed a polygraph examination to demonstrate leadership to his employees who were being asked to undergo the examinations. It remains to be seen how far the indictment is carried against Neufeld, who has offered to repay the funds he received, but a harsh penalty in an environment of immunity for far more serious crimes could make it even more difficult to find honest, qualified Paraguayans to carry the reform struggle forward. In the short-term, post remains optimistic that Neufeld's replacement will continue progress on the MCC components that involve the Tax Administration.

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